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MAPLE LEAF MILLS LIMITED

Annual Report to Shareholders, December 31, 1971



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JOHN J. WIGLE
SECRETARY-TREASURER
MAPLE LEAF MILLS LIMITED

(NO ACKNOWLEDGMENT NECESSARY)

Annual Report

for the year ended December 31, 1971

Maple Leaf Mills Limited

Directors

R. G. Dale	J. A. McCleery
H. B. Dunbar	B. A. Norris
J. D. Leitch	J. H. Taylor
J. L. Lewtas	R. C. Vincent
F. H. Logan	R. W. Wadds
G. M. MacLachlan	M. D. Weiner

Officers

President and Chief Executive Officer

R. G. Dale

Senior Vice-Presidents

P. W. Strickland	Foods Group
J. A. Telfer	Finance and Corporate Development

Vice-Presidents

G. F. Allan	Flour
A. W. Archibald	Corporate
H. W. Blakely	Grocery Products
H. V. Hawkins	Agricultural Group
S. A. Miller	Personnel
W. G. Milliken	Vegetable Oil
C. L. Turner	Grain

Financial

D. D. Brown	Controller
R. E. Lennox	Assistant Secretary-Treasurer
J. J. Wigle	Secretary-Treasurer

Head Office

417 Queen's Quay West
Toronto 2B, Ontario

Transfer Agent and Registrar

Crown Trust Company
Toronto and Montreal



Financial Highlights

	1971	1970
	<i>(000's omitted)</i>	
Net sales	\$202,154	\$201,681
Earnings before extraordinary items	1,737	2,225
Net earnings	2,566	2,225
Cash flow	5,107	5,787
Property additions	3,910	4,994
Dividends	1,379	1,378
Working capital	20,782	20,791
Common shareholders' equity	44,978	43,745
Per common share		
Earnings before extraordinary items	\$ 1.02	\$ 1.33
Net earnings	1.54	1.33
Common dividends	.80	.80
Shareholders' equity	28.06	27.34

To The Shareholders

Results for the fiscal year ended December 31st, 1971, show that consolidated revenue was marginally higher than in 1970, while earnings per common share, before extraordinary items were \$1.02 compared with \$1.33. Net earnings per common share after extraordinary items were \$1.54. There were no extraordinary items in 1970.

The fiscal year 1971 was a difficult and challenging one for the Company as the weakness of certain segments of the agricultural economy coupled with the pressures of inflation and a general economic slowdown in Canada placed new and serious pressures on many of our business activities.

Agricultural operations were particularly affected by an unprecedented decline in prices for poultry and eggs, which had an extremely adverse effect on both volume and margins. As a result, earnings from this area of the Company were at the lowest level recorded in recent years.

Flour operations showed an overall increase in sales and in spite of rising costs and intense competition for existing markets, earnings showed an encouraging improvement. The Russian flour contract was renewed and other export sales remained at about the same level as the year before. Competition for flour business in foreign markets is becoming increasingly difficult in the face of subsidized exports from certain countries. We are continuing our

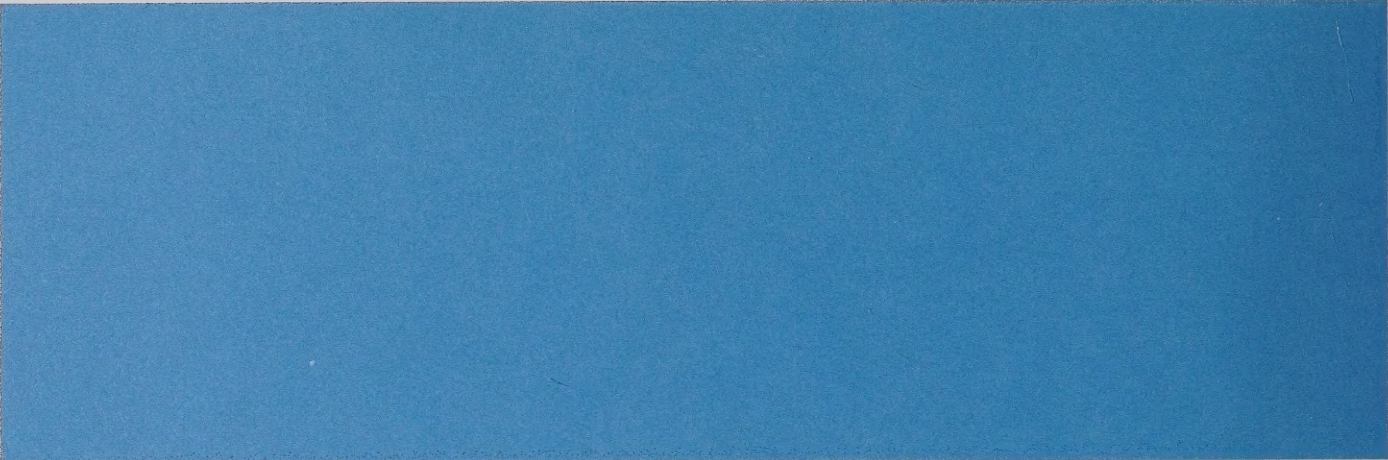
efforts to improve the operating efficiency of our plants across the country.

The results from our management of the flour mill at Port-au-Prince in Haiti remain very satisfactory. As the per capita consumption of flour in that country is steadily increasing, we are proceeding to plan and direct an expansion of the capacity of the mill for the Haitian Government. Other ventures in the Caribbean area particularly in flour milling and related activities, are being actively pursued.

During the year a new Food Service Department was established, which is responsible for all aspects of institutional sales of a wide range of products, and we plan to obtain a profitable share of this fast growing segment of the food business.

We have continued to make progress in streamlining our Grocery Products operations and improving our market share, and we remain optimistic about the opportunities for growth in Canada and in certain areas of the United States.

Grain operations had another good year with satisfactory results being reported from elevator and grain merchandising and improved earnings from St. Clair Grain and Feeds in South-western Ontario. The Canadian Grain



Trade is going through a period of great change as more attention is being paid to the development of markets by flexible pricing policies and other techniques such as the new protein grading system for Western wheat. Such changes while creating new opportunities in some areas have led to operating problems in others.

Similarly our Vegetable Oil operations produced above-average earnings in spite of increased competition and fluctuating commodity values.

During the year the Steele Briggs packet and garden seed business was sold to A. E. McKenzie Ltd. and our seed operations will once again be concentrated on the handling and marketing of field, forage and lawn seeds across Canada and in the export markets of the world. We are expanding our seed corn business and continuing to undertake plant breeding and related studies for the improvement of seed varieties, particularly corn, at the Company's Agricultural research farm.

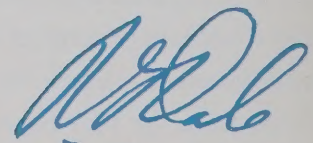
In total, the results of our baking subsidiaries, Corporate Foods Limited and Eastern Bakeries Limited, showed substantial improvement over the previous year. For the first time, the equity method of accounting was extended to include the results of our affiliate McGavin ToastMaster Limited which operates bakeries throughout Western Canada.

On February 25th, 1972, Mr. J. D. Leitch, Mr. J. L. Lewtas, Mr. F. H. Logan and Mr. R. W. Wadds were appointed to the Board of Directors, to fill existing vacancies.

Our Agricultural operations have been re-organized and in all operating areas, particular attention is being paid to cost reduction and profit improvement programs. It is expected that those severe conditions that have prevailed in the Canadian agricultural economy, particularly with respect to the over-production of poultry products, will moderate during the next few months. This moderation coupled with an improved performance by our baking companies and reasonable results from our other Divisions, should produce a higher level of earnings on a consolidated basis in this fiscal year.

The efforts of our employees at every level of the organization and their co-operation during an unusually difficult operating year are very greatly appreciated.

On Behalf of the Board of Directors



R. G. DALE,
President and
Chief Executive Officer

May 10, 1972.



Consolidated Statement of Earnings and Retained Earnings

	FOR THE YEAR ENDED DECEMBER 31	
	1971	1970
	<i>(000's omitted)</i>	
Sales and revenues:		
Net sales, operating revenues and commodity trading margins	\$202,154	\$201,681
Income from short-term investments	301	446
Income from other investments	399	189
Other income	1,608	1,198
	<u>204,462</u>	<u>203,514</u>
Costs and expenses:		
Cost of sales and operating expenses	172,640	171,980
Selling and administrative expenses	20,452	18,730
Depreciation (Note 3)	3,837	3,910
Interest on bankers' advances and notes	2,434	2,838
Interest on long-term debt	1,018	1,035
Remuneration of directors and senior officers	427	405
Amortization of goodwill	43	47
	<u>200,851</u>	<u>198,945</u>
Earnings before income taxes and minority interest	3,611	4,569
Income taxes	1,950	2,515
Earnings before minority interest	1,661	2,054
Minority interest	(76)	(171)
Earnings before extraordinary item	<u>1,737</u>	<u>2,225</u>
Extraordinary item (Note 9)	829	—
Net earnings	<u>2,566</u>	<u>2,225</u>
Retained earnings at beginning of year	<u>37,947</u>	<u>37,100</u>
	<u>40,513</u>	<u>39,325</u>
Dividends:		
Preference shares	102	102
Common shares	1,277	1,276
	<u>1,379</u>	<u>1,378</u>
Retained earnings at end of year	<u>\$ 39,134</u>	<u>\$ 37,947</u>
Earnings per common share:		
Earnings before extraordinary item	<u>\$ 1.02</u>	<u>\$ 1.33</u>
Net earnings	<u>\$ 1.54</u>	<u>\$ 1.33</u>



Consolidated Balance Sheet

ASSETS	DECEMBER 31	
	1971	1970
	<i>(000's omitted)</i>	
Current:		
Cash and term deposits	\$ 3,081	\$ 2,619
Marketable securities, at cost which approximates market	3,121	3,438
Accounts receivable	28,937	30,020
Deposits with The Canadian Wheat Board (Note 2)	19,456	21,476
Bankers' advances applicable thereto (Note 4)	(19,456)	(21,476)
Inventories—		
Finished products and materials held for production, at the lower of average cost and replacement cost	26,718	29,589
Grains held for resale, at replacement cost	7,342	8,026
Prepaid expenses	732	951
Total current assets	<u>69,931</u>	<u>74,643</u>
Investments:		
Mortgages and other investments, at cost less amounts written off	6,031	5,610
Joint ventures, at underlying equity (Note 1)	3,682	3,214
	<u>9,713</u>	<u>8,824</u>
Property, plant and equipment less depreciation (Note 3)	<u>37,527</u>	<u>38,370</u>
Other:		
Unamortized debenture discount and expenses	335	375
Goodwill and trademarks, at cost less amortization (Note 1)	620	674
	<u>955</u>	<u>1,049</u>
 On behalf of the Board:		
R. G. DALE, Director		
J. H. TAYLOR, Director		
	<u>\$118,126</u>	<u>\$122,886</u>

LIABILITIES	DECEMBER 31	
	1971	1970
	(000's omitted)	
Current:		
Bankers' advances (Notes 2 and 4)	\$ 26,674	\$ 36,183
Notes payable	10,955	4,285
Accounts payable and accruals	10,415	10,648
Income and other taxes payable	312	1,387
Dividends payable	353	353
Current maturities of long-term debt	146	186
Provision for plant relocation expenses	294	810
Total current liabilities	<u>49,149</u>	<u>53,852</u>
Long-term debt (Note 5)	<u>13,844</u>	<u>14,619</u>
Deferred income taxes	<u>4,411</u>	<u>4,628</u>
Minority interest in subsidiaries:		
Preference shares (redeemable for \$1,544,000)	1,442	1,460
Common shares	<u>2,442</u>	<u>2,722</u>
	<u>3,884</u>	<u>4,182</u>
Shareholders' equity:		
Capital stock (Note 6) —		
Preference shares class A, par value \$100 each. Authorized 75,000 shares, issued nil		
5½% preference shares class B (cumulative, redeemable and voting), par value \$100 each. Authorized and issued 18,602 shares	1,860	1,860
Common shares without par value. Authorized 4,000,000 shares, issued 1,602,907 of which 5,390 are held by a subsidiary	<u>5,267</u>	<u>5,221</u>
	7,127	7,081
Contributed surplus	577	577
Retained earnings	<u>39,134</u>	<u>37,947</u>
	<u>46,838</u>	<u>45,605</u>
	<u>\$118,126</u>	<u>\$122,886</u>



Consolidated Statement of Source and Application of Funds

	FOR THE YEAR ENDED DECEMBER 31	
	1971	1970
	<i>(000's omitted)</i>	
Source of funds:		
Funds generated from operations	\$ 5,107	\$ 5,787
Sale of property, plant and equipment	940	743
Investments (net)	54	(421)
Common shares issued	46	1
Long-term debt issued	—	52
	<u>6,147</u>	<u>6,162</u>
Application of funds:		
Purchase of property, plant and equipment	3,910	4,994
Dividends	1,379	1,378
Long-term debt	775	611
Reduction of minority interests in subsidiaries	77	53
Purchase of goodwill and trademarks	15	110
	<u>6,156</u>	<u>7,146</u>
Less non-current liabilities arising on acquisition of a subsidiary	—	214
	<u>6,156</u>	<u>6,932</u>
Decrease in working capital	<u>\$ 9</u>	<u>\$ 770</u>
Working capital at end of year	<u>\$ 20,782</u>	<u>\$ 20,791</u>



Notes to Consolidated Financial Statements

December 31, 1971

1. Principles of consolidation

The consolidated financial statements include the accounts of the company and all its subsidiaries as of December 31, with the exception of those of Eastern Bakeries Limited and Hillcrest Farm Limited which are as of October 31.

The excess of cost over book value of net assets of subsidiaries at dates of acquisition has been allocated to property, plant and equipment and goodwill. Depreciation has been charged against earnings on amounts allocated to depreciable assets. As a general rule goodwill is not amortized but where, in the opinion of management, it has a limited life its cost is amortized over a 10 year period. The unamortized excess of cost over book value of net assets of subsidiaries at December 31, 1971 is classified in the consolidated balance sheet as follows:

Land	\$107,000
Depreciable assets	110,000
Goodwill (of which \$90,000 remains to be amortized)	446,000

3. Property, plant and equipment

Property, plant and equipment and accumulated depreciation are set out below:

	1971			1970
	Cost	Accumulated Depreciation	Net	Net
Land and land improvements	\$ 2,654,000	\$ 5,000	\$ 2,649,000	\$ 2,743,000
Buildings	35,306,000	16,499,000	18,807,000	19,553,000
Equipment	50,807,000	34,736,000	16,071,000	16,074,000
	<u>\$88,767,000</u>	<u>\$51,240,000</u>	<u>\$37,527,000</u>	<u>\$38,370,000</u>

Depreciation is calculated on the straight-line method. The rates used, as set out below, are estimated to be sufficient to depreciate the cost of the assets to residual value by the expiration of their useful lives:

Buildings	2% to 5% per annum
Machinery and equipment	6% to 10% per annum
Automotive equipment	15% to 33% per annum

For several years, the company has used the equity method of accounting for its investment in 50% owned joint ventures. In accordance with recent trends in accounting, the company has extended the application of this method to all joint ventures. Accordingly, the investment in McGavin ToastMaster Limited, Purity Bakeries Limited, Barbados and Delaware Farms Limited has been reclassified in the 1971 balance sheet and the 1970 figures have been changed for comparative purposes. The effect of this change on the 1971 and 1970 earnings is not material.

2. Change in statement presentation

The company is required to make deposits with The Canadian Wheat Board on account of wheat held as its agent. Since title to such wheat remains in the Board the company has changed its statement presentation to exclude the amount of these deposits from inventory. Under The Canadian Wheat Board Act the company is able to borrow, from its bankers, on the security of wheat held as agent of the Board. Accordingly, the company has also changed its statement presentation to offset such borrowings against the related deposits.

4. Bankers' advances

Bankers' advances are secured by assignment of accounts receivable, inventories and wheat held as agent of The Canadian Wheat Board.

5. Long-term debt

Long-term debt, excluding current maturities included in current liabilities, consists of the following:

Maple Leaf Mills Limited—

5¼% sinking fund debentures maturing December 1, 1981—sinking fund retirements of \$500,000 annually up to and including 1980	\$ 9,390,000
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Subsidiaries:

Corporate Foods Limited—

8½% sinking fund debentures, series A due December 15, 1988—annual sinking fund instalments increasing from \$105,000 to \$329,000 1973 to 1987	4,314,000
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Hillcrest Farm Limited—

7% mortgage and term bank loan	66,000
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McLean Feed and Grain Limited—

10% mortgage and interest-free note	74,000
	<u>\$13,844,000</u>

The aggregate amount of maturities is approximately \$550,000 for the year ending December 31, 1973 and approximately \$650,000 for each of the following three years.

Auditors' Report

To the Shareholders of Maple Leaf Mills Limited

We have examined the consolidated balance sheet of Maple Leaf Mills Limited and its subsidiaries as of December 31, 1971 and the consolidated statements of earnings and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as of December 31, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year except as explained in Note 1.

Toronto, Ontario
February 24, 1972

6. Stock options

There are options outstanding on 32,897 common shares under the employees' stock option plan which become exercisable over a period of years to 1979 at prices ranging from \$11.50 to \$20.00 per share.

During the year 3,072 common shares were issued under the plan for \$46,000.

7. Commitments and contingent liabilities

There are guarantees totalling \$1,215,000 under lines of credit to associated companies on which the indebtedness at December 31, 1971 amounted to \$1,023,000.

Commitments to purchase property, plant and equipment amounted to approximately \$500,000 at December 31, 1971.

8. Working capital and retained earnings restrictions

Under the trust indenture securing the company's debentures and the letters patent authorizing the 5½% preference shares Class B, there are covenants to maintain working capital and shareholders' equity above stipulated levels. As of December 31 the company's working capital and shareholders' equity exceeded these minimum requirements by approximately \$10,700,000 and \$18,200,000 respectively.

9. Extraordinary item

The extraordinary item represents the gain on the sale of the goodwill, trademarks and certain properties of the company's packet seed business.

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants



Five year financial summary

	YEAR ENDED DECEMBER 31			YEAR ENDED MARCH 31	
	<u>1971</u>	<u>1970</u>	<u>1969</u>	<u>1969</u>	<u>1968</u>
	<i>(000's omitted)</i>				
Operating results					
Net sales	\$202,154	\$201,681	\$203,315	\$203,966	\$179,262
Earnings before extraordinary items	1,737	2,225	2,847	3,455	2,986
Net earnings	2,566	2,225	2,552	3,684	2,336
Dividends	1,379	1,378	1,534	1,455	1,415
Cash flow	5,107	5,787	6,248	8,077	7,644
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Financial position					
Working capital	20,782	20,791	21,561	22,561	19,654
Total assets	118,126	122,886	116,839	112,332	100,790
Long-term debt	13,844	14,619	15,174	15,619	12,300
Shareholders' equity	44,978	43,745	42,897	42,026	39,792
<hr/>					
Per common share					
Earnings before extraordinary items	1.02	1.33	1.71	2.10	1.81
Net earnings	1.54	1.33	1.53	2.24	1.40
Dividends	.80	.80	.90	.85	.80
Shareholders' equity	28.06	27.34	26.82	26.32	24.92

Organization Structure

Main activities and products

Agricultural Group

Feed Division

Manufacture and sale of complete range of animal and poultry feeds under the Master Feeds label. Master Feed farm service centres. Operate broiler breeder flocks and broiler chick hatchery, broiler chicken, layer chicken and turkey farms.

Seed Division

Processing and sale of forage seeds, production and sale of lawn seed and hybrid seed corn.

Poultry Processing Division

Processing of broiler chicken and turkeys sold under Pinecrest label.

Foods Group

Grocery Products Division

Manufacture and sale of family flour and convenience foods under the following brand names—Monarch, Purity, Cream of the West and Jolly Miller. Manufacture and sale of pet foods under the Master and Mutt 'n Jeff brand names. Distributor of Kitty Litter.

Industrial Flour Division

Millers of flour and cereal products for bakeries, biscuit manufacturers, pasta trade and food processors in both domestic and export markets.

Food Service Department

Convenience foods to the restaurant, fast food, hotel and institutional trade.

Overseas Operations

Management of La Minoterie D'Haiti, a flour mill owned by the State of Haiti.

Commodity Group

Grain Division

Merchandiser of milling and feed grains, oilseeds, seed grains and fertilizer, terminal elevator operator, sales agent of The Canadian Wheat Board.

Vegetable Oil Division

Oilseed crusher, merchandiser of soybean and linseed oils and meals, industrial oil processor, and merchandiser of various imported edible vegetable oils.

Partly Owned Bakery Companies

Corporate Foods Limited

Manufacturers and distributors of fresh and frozen bakery products in Ontario and Quebec under the ToastMaster, Dempster's and Gainsborough Kitchens trade names.

Eastern Bakeries Limited

Manufacturers and distributors of bread, rolls, cake and sweet goods in the Maritime provinces under the Butter-Nut, Sunny Bee, Fun Buns and Country Kitchen trade names.

McGavin ToastMaster Limited

Manufacturers and distributors of bread, rolls, cake, sweet goods and frozen dough in the four western provinces under the ToastMaster, Mother Hubbard and Alpine trade names.

